

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Branch County Road Commission		County Branch	
Audit Date 12/31/04		Opinion Date 3/22/05		Date Accountant Report Submitted to State: April 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA				
Street Address 5800 GRATIOT, PO BOX 2025		City SAGINAW	State MI	Zip 48605
Accountant Signature 				

**BRANCH COUNTY ROAD
COMMISSION**
(a Component Unit of Branch County)



Coldwater, Michigan

FINANCIAL STATEMENTS

For The Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

BRANCH COUNTY ROAD COMMISSION
(a Component Unit of Branch County)

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



INDEPENDENT AUDITORS' REPORT

March 22, 2005

Members of the Board of County
Road Commissioners
County of Branch, Michigan
Coldwater, Michigan

We have audited the accompanying financial statements of the governmental activities and the major fund of the **BRANCH COUNTY ROAD COMMISSION**, a component unit of Branch County, Michigan, as of and for the year ended December 31, 2004, which collectively comprise the Road Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Branch County Road Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the **Branch County Road Commission** as of December 31, 2004, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2005, on our consideration of the **Branch County Road Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements which collectively comprise the Road Commission's basic financial statements. The schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of the **Branch County Road Commission**. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Branch County Road Commission, we offer the readers of the Road Commission's financial statements this narrative overview and analysis of the financial activities of the Road Commission for the fiscal year ended December 31, 2004.

Financial Highlights

The Branch County Road Commission met the requirements of Governmental Accounting Standards Board (GASB) Statement No. 34 beginning with fiscal year end December 31, 2003.

Net assets may, over time, enable governmental agencies to determine their overall fiscal position. As shown on the Branch County Road Commission Net Asset chart below, the Road Commission's assets exceeded liabilities by \$28,348,973 at the end of the fiscal year. There was an increase of \$828,535 in net assets during 2004.

The Road Commission's debt decreased by approximately \$209,097 during the current fiscal year; no new debt was issued.

Overview of the Financial Statements

This discussion and analysis is intended to provide a basis of understanding the Road Commission's basic financial statements. These statements comprise three components: (1) government-wide financial statements (2) fund financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional informational purposes.

To simplify financial reporting and improve readability, the government-wide financial statements and the fund statements have been combined to report the statement of net assets and general fund balance sheet on a single page and the statement of activities and general fund revenues, expenditures and changes in fund balance on a single page. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of the Commission's overall fiscal position.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

Both of the component unit financial statements distinguish the function of the Commission which is principally supported by state shared revenues (operating grants). The governmental activities of the Commission include providing construction, repair, maintenance, and snow removal of roads within Branch County.

The government-wide financial statements include only the Commission itself (known as the *Primary government*). The Commission has no legally separate component units for which the Commission is financial accountable. In this report, financial information for the Commission is reported separately from the financial information presented for Branch County which reports the Commission as a component unit.

The government-wide financial statements can be found starting on page 9 of this report.

Fund financial statements. A *fund* is grouping of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Commission is accounted for in a governmental fund (General Fund).

Governmental funds. *Governmental funds* (General Fund) are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, general fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the general fund is narrower than that of the government-wide financial statement's it is useful to compare the information presented for the general fund with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the general fund balance sheet and the general fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the general fund and the government-wide statements.

The Commission maintains one governmental fund (the General Fund). Information is presented in the general fund balance sheet and in the general fund statement of revenues, expenditures, and changes in fund balances for the Commission. The general fund is a major fund for financial reporting purpose as defined by GASB Statement #34.

The Commission adopts an annual appropriated budget for its fund. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The Commission does not maintain proprietary nor fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the commission's financial statements. The notes to the financial statements can be found on pages 14 through 23 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

Condensed Statement of Net assets:

	<u>2003</u>	<u>2004</u>
Current and other assets	\$ 1,857,328	\$ 1,888,803
Capital assets	<u>27,074,487</u>	<u>27,756,360</u>
Total assets	<u>28,931,815</u>	<u>29,645,163</u>
Long-term liabilities outstanding	1,017,023	807,926
Other liabilities	<u>394,353</u>	<u>488,264</u>
Total liabilities	<u>1,411,376</u>	<u>1,296,190</u>
Net assets:		
Invested in capital assets	26,386,251	27,301,658
Restricted	-0-	-0-
Unrestricted	<u>1,097,315</u>	<u>1,047,315</u>
Total net assets	<u>\$27,483,566</u>	<u>\$ 28,348,973</u>

Condensed Statement of Activities:**Revenue**

Permits	\$ 22,666	\$ 21,085
Federal Sources	320,270	366,913
State Sources	4,512,869	4,664,431
Local Sources	481,730	475,332
Charges for Services	1,682,759	1,822,543
Interest and Rentals	12,003	8,362
Other	<u>92,814</u>	<u>69,780</u>

Total revenue	<u>7,125,111</u>	<u>7,452,388</u>
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Expenses

Public Works	6,178,634	6,599,568
Debt Service - Interest only	<u>31,910</u>	<u>24,285</u>

Total expenses	<u>6,210,544</u>	<u>6,623,853</u>
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Increase in net assets	<u>914,567</u>	<u>\$ 828,535</u>
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Net assets, beginning of year	<u>26,605,871</u>	<u>27,520,438</u>
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Net assets, end of year	<u>\$ 27,520,438</u>	<u>\$ 28,348,973</u>
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Capital Assets and Debt Administration

Branch County Road Commission Capital Assets

	<u>2003</u>	<u>2004</u>
Land and improvements – not depreciated	<u>\$ 2,924,312</u>	<u>\$3,095,441</u>
Depletable Assets	626,798	626,798
Buildings	1,289,406	1,240,658
Road Equipment	6,337,097	6,436,682
Shop Equipment	243,001	229,660
Office Equipment	108,532	88,942
Engineering Equipment	6,351	12,555
Yard & Storage Equipment	842,685	819,800
Infrastructure		
Roads and Bridges	42,499,830	45,145,235
Traffic Signals	<u>-0-</u>	<u>-0-</u>
Sub-total	<u>51,953,700</u>	<u>54,600,330</u>
Accumulated depreciation		
Depletable Assets	534,558	534,558
Buildings and improvements	852,901	843,550
Road Equipment	4,880,722	5,131,998
Shop Equipment	200,231	196,528
Office Equipment	76,936	63,130
Engineers Equipment	6,350	4,562
Yard & Storage Equipment	507,485	528,905
Infrastructure – Roads	17,419,548	19,156,996
Infrastructure – Bridges	<u>3,324,794</u>	<u>3,479,184</u>
Total accumulated depreciation	<u>27,803,525</u>	<u>29,939,411</u>
Total capital assets being depreciated – net	<u>24,150,175</u>	<u>24,660,919</u>
Governmental activities capital assets – net	<u>\$27,074,487</u>	<u>\$27,756,360</u>

Heavy maintenance expenditures on roadways and bridges increased capital assets by approximately \$2,645,000 in 2004.

Long-term debt

Bonds Payable	\$ -0-	\$ -0-
Lease Purchase Agreements	688,236	454,702
Compensated absences	<u>328,787</u>	<u>353,224</u>
Total	<u>\$1,017,023</u>	<u>\$807,926</u>

Economic Factors and Road Fund Budgetary Highlights

The Road Commission amended its 2004 budget during the year to reflect the sale of federal aid to Michigan Department of Transportation and the decline in township contributions for construction.

We anticipate our 2005 Michigan Transportation Fund (MTF) revenues to be slightly less than our 2004 MTF funds, due to the one-time revenue increase for trailer license registration fees. The reduction in revenue sharing to townships has resulted in less revenue available for construction projects to the road commission.

Requests for Information

This financial report is designed to provide a general overview of Commission's finances for all those with an interest in the component unit's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Manager, Branch County Road Commission, 23 E. Garfield Avenue, Coldwater, MI 49036.

BASIC FINANCIAL STATEMENTS

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF NET ASSETS AND GENERAL FUND BALANCE SHEET

DECEMBER 31, 2004

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
ASSETS			
Cash and interest bearing deposits	\$ 507,569	\$ -	\$ 507,569
Accounts receivable			
Motor vehicle highway funds	692,111	-	692,111
State Trunkline Maintenance	152,685	-	152,685
Other	56,601	-	56,601
Inventories			
Road materials	276,136	-	276,136
Equipment material and parts	203,701	-	203,701
Capital assets			
Assets not being depreciated		3,095,441	3,095,441
Assets being depreciated, net	-	24,660,919	24,660,919
Total assets	<u>\$ 1,888,803</u>	<u>27,756,360</u>	<u>29,645,163</u>
LIABILITIES			
Accounts payable	\$ 87,388	-	87,388
Accrued liabilities	57,905	8,206	66,111
Deferred revenue	23,942	(23,942)	-
Short term advances	334,765	-	334,765
Long-term liabilities			
Due within one year	-	209,460	209,460
Due after one year	-	598,466	598,466
Total liabilities	<u>504,000</u>	<u>792,190</u>	<u>1,296,190</u>
Fund Balance/Net Assets			
Fund balance			
Reserved for inventories	479,837	(479,837)	-
Unreserved, undesignated	904,966	(904,966)	-
Total fund balance	<u>1,384,803</u>	<u>(1,384,803)</u>	<u>-</u>
Total liabilities and fund balance	<u>\$ 1,888,803</u>		
Net Assets			
Invested in capital assets, net of related debt		27,301,658	27,301,658
Unrestricted		1,047,315	1,047,315
Total net assets		<u>\$ 28,348,973</u>	<u>\$ 28,348,973</u>

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

Reconciliation of General Fund Balance Sheet to Statement of Net Assets

DECEMBER 31, 2004

Fund balances - General Fund	\$ 1,384,803
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	27,756,360
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.	23,942
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	(454,702)
Certain liabilities, such as compensated absences and accrued interest, are not due and payable in the current period and therefore are not reported in the funds:	
Deduct - accrued interest payable	(8,206)
Deduct - compensated absences payable	(353,224)
Net assets of governmental activities	<u><u>\$ 28,348,973</u></u>

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF ACTIVITIES AND GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2004

	General Operating Fund	Adjustments	Statement of Activities
EXPENDITURES/EXPENSES			
Current:			
Public works	\$ 7,257,004	\$ (657,436)	\$ 6,599,568
Debt service:			
Principal	233,534	(233,534)	-
Interest	24,285	-	24,285
TOTAL EXPENDITURES/EXPENSES	7,514,823	(890,970)	6,623,853
PROGRAM REVENUES			
Charges for services	2,363,740	23,942	2,387,682
Operating grants and contributions	4,689,431	-	4,689,431
Capital grants and contributions	366,913	-	366,913
TOTAL PROGRAM REVENUES	7,420,084	23,942	7,444,026
NET PROGRAM REVENUES			820,173
GENERAL REVENUES			
Interest earned	8,362	-	8,362
NET CHANGE IN FUND BALANCE	(86,377)	86,377	
CHANGES IN NET ASSETS			828,535
FUND BALANCE/NET ASSETS,			
Beginning of year, as restated	1,471,180	-	27,520,438
FUND BALANCE/NET ASSETS, End of year	\$ 1,384,803	\$ 86,377	\$ 28,348,973

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

Reconciliation of the General Fund Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities

FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balance - General Fund	\$ (86,377)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	171,129
Add - Infrastructure additions	3,067,721
Deduct - depreciation expense	(2,556,977)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	23,942
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Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Add: lease purchase installment payments	233,534
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:

Deduct: increase in compensated absences	(24,437)
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Change in net assets of governmental activities	<u>\$ 828,535</u>
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The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
REVENUE				
Permits	\$ 20,000	\$ 20,585	\$ 21,085	\$ 500
Intergovernmental:				
Federal sources	800,000	543,173	366,913	(176,260)
State sources	4,150,500	4,213,477	4,664,431	450,954
Local sources	500,000	475,331	475,332	1
Charges for services	1,392,500	1,803,576	1,822,543	18,967
Interest and rentals	12,000	7,500	8,362	862
Transfer from primary government	25,000	25,000	25,000	-
Other	250,000	504,057	44,780	(459,277)
TOTAL REVENUE	7,150,000	7,592,699	7,428,446	(164,253)
EXPENDITURES				
Current:				
Primary heavy maintenance	1,700,000	2,084,755	1,968,942	(115,813)
Local heavy maintenance	800,000	757,462	832,416	74,954
Primary maintenance	1,800,000	1,718,079	2,019,316	301,237
Local maintenance	1,100,000	1,322,036	1,313,598	(8,438)
Trunkline maintenance	1,250,000	1,318,264	1,366,054	47,790
Trunkline nonmaintenance	50,000	102,785	102,785	-
Equipment - net	(50,000)	(417,518)	(428,821)	(11,303)
Administrative - net	450,000	486,791	323,251	(163,540)
Capital outlay - net	(430,000)	(184,529)	(242,822)	(58,293)
Debt service	230,000	257,819	257,819	-
Other	500,000	399,920	2,285	(397,635)
TOTAL EXPENDITURES	7,400,000	7,845,864	7,514,823	(331,041)
REVENUE OVER (UNDER) EXPENDITURES	(250,000)	(253,165)	(86,377)	166,788
OTHER FINANCING SOURCES				
Installment purchase/lease proceeds	250,000	606,845	-	(606,845)
NET CHANGE IN FUND BALANCES	-	353,680	(86,377)	(440,057)
FUND BALANCE, Beginning of year, as restated	1,572,347	1,471,180	1,471,180	-
FUND BALANCE, End of year	\$ 1,572,347	\$ 1,824,860	\$ 1,384,803	\$ (440,057)

The accompanying notes are an integral part of these financial statements.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Branch County Road Commission (the “Road Commission”) conform to generally accepted accounting principles as applied to governmental units. The following is a summary of the significant policies.

Reporting Entity

The Branch County Road Commission, referred to as the Road Commission, is a discrete component unit of the County of Branch, Michigan. The Road Commission was established pursuant to the county road law (MCL 224.1), and is governed by a three member Board of County Road Commissioners appointed by the County Board of Commissioners.

The criteria established by the Governmental Accounting Standards Board Statement No. 14, “The Financial Reporting Entity”, for determining the reporting entity includes having significant financial or operational relationships. Based on the above criteria, these financial statements present the Branch County Road Commission, a discretely presented component unit of Branch County, and include the Road Commission General Operating Fund.

The Road Commission General Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the County, which are earmarked by law for street and highway purposes. The Board of County Road Commissioners has responsibility for the administration of the Road Commission’s General Operating Fund.

Basis of Presentation

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the primary government. *Governmental activities* are supported by charges for services and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Internally dedicated resources are reported as general revenues rather than as program revenues.

As permitted by GASB Statement No. 34, the Road Commission uses an alternative approach reserved for single program governments to present combined government-wide and fund financial statements by using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column. The general fund is considered to be a major fund for financial reporting purposes.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Measurement Focus Basis of Accounting and Financial Statement Presentation

The government-wide financial statements (statement of net assets and the statement of activity) are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund (general fund) financial statements (general fund balance sheet and general fund revenues, expenditures and changes in fund balance) are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences not expected to be paid in the current year and claims and judgments, are recorded only when payment is due.

State and grant revenue, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental fund:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government.

Budgetary Data

The governmental fund is under formal budgetary control. The budget shown in the financial statements was adopted on a basis consistent with generally accepted accounting principles (GAAP), which is the modified accrual basis used to reflect actual results, and consists only of those amounts contained in the formal budget as originally adopted or as amended by the Board of County Road Commissioners. The budget for the General Operating Fund is adopted on a functional basis, and in accordance with the Uniform Budgeting and Accounting Act as prescribed by the State of Michigan. Variances at the functional level of control are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

The Road Commission adopts a budget for the general operating fund by means of an appropriations act, on a departmental activity basis in summary form. Periodic internal reporting is on a detail basis in accordance with the state-prescribed uniform chart of accounts consistent with the way the books are maintained. The budget is prepared on the modified accrued basis of accounting, which is the same basis as the financial statements. Excess expenditures over budget at this level are disclosed on the Statement of Revenue, Expenditures and Changes in Fund Balances – Budget and Actual – for the general fund.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Available revenues and underspending in other functional categories were used to offset overexpenditures in the general fund.

Inventory

Inventory consists of various operating parts, supplies, and road material, and the cost is recognized using the consumption method (inventories recorded as expenditures when they are used). Inventories are stated at average cost determined on a first-in, first-out method, except for road materials, which are determined on the average cost method, and are not in excess of fair value.

Fund Balance Reservations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation.

Capital Assets

Capital assets, which include property, equipment and infrastructure assets (roads, bridges and similar items) are reported in the government-wide statements (statement of net assets and statement of changes in net assets). Capital assets are defined by the Road Commission as assets with an initial, individual cost of more than \$1,000 and with an estimated life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded as capital expenditures at the time of purchase in the fund financial statements (statement of general fund revenues, expenditures and changes in fund balance) and are subsequently capitalized on the government-wide statements through an adjustment to the governmental fund (general fund) column.

The Uniform Accounting Procedures prescribed for Michigan County Road Commissions provide for recording depreciation in the General Operating Fund as a charge to various expense accounts and a credit to the depreciation contra expense account. Accordingly, the annual depreciation expense does not affect the available operating fund balance of the General Operating Fund.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

Depreciation is recorded over the estimated useful lives (ranging from five to forty years) of the assets, using the sum-of-years digits method for road equipment and straight-line method for all other capital assets and infrastructure as follows:

<u>Asset Category</u>	<u>Useful Life in Years</u>
Buildings and improvements	40
Equipment	5 to 10
Infrastructure	8 to 50

Deferred Compensation Plan

The Road Commission offers its employees a deferred compensation plan created in accordance with IRS section 457. The plan, available to all Commission employees, permits them to defer a portion of their current salary until future years. A trust has been established for the plan assets and the related assets and liability are not included in the Road Commission's financial statements.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Significant bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums, discounts, and issuance costs on a prospective basis.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Under existing general Road Commission rules and regulations and its Labor Agreement, all regular full-time employees are eligible for paid leave in varying amounts based on number of years of service completed by each employee as of the preceding calendar year.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

2. CASH DEPOSITS AND INVESTMENTS

Deposits

At December 31, 2004, the amount of the Road Commission's deposits were as follows:

	Carrying Amount	Bank Balance
Petty cash	\$ 500	\$ -
Checking account – insured Held by Branch County *	-	43,662
Cash – bank money markets	507,069	506,454
	<u>\$ 507,569</u>	<u>\$ 550,116</u>

* Deposits of the Road Commission held by Branch County may be partially covered by federal depository insurance. The amount of federal depository insurance is determined for the County as a whole, but cannot be separately identified for the Road Commission.

Investments

Statutes authorize the Road Commission to invest funds in the following:

- Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States
- Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution
- Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase
- Bankers acceptances of United States banks
- Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service
- Mutual funds registered under the investment company act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation
- External investment pools as authorized by Public Act 20 as amended through 12/31/97

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

3. CAPITAL ASSETS

Changes in the components of the capital assets are summarized as follows:

	BALANCE - JANUARY 1, 2004	ADDITIONS	DELETIONS	BALANCE - DECEMBER 31, 2004
Capital assets not being depreciated:				
Land and improvements	\$ 46,464	\$ -	\$ -	\$ 46,464
Land improvements - infrastructure	2,877,848	171,129	-	3,048,977
Total capital assets not being depreciated	2,924,312	171,129	-	3,095,441
Capital assets being depreciated:				
Depletable assets	626,798	-	-	626,798
Buildings	1,289,406	-	48,748	1,240,658
Equipment:				
Road	6,337,097	404,259	304,674	6,436,682
Shop	243,001	2,995	16,336	229,660
Office	108,532	4,270	23,860	88,942
Engineers	6,351	8,258	2,054	12,555
Yard and storage	842,685	2,534	25,419	819,800
Infrastructure	42,499,830	2,645,405	-	45,145,235
Subtotal	51,953,700	3,067,721	421,091	54,600,330
Accumulated depreciation and depletion				
Depletable assets	534,558	-	-	534,558
Buildings	852,901	39,397	48,748	843,550
Equipment:				
Road	4,880,722	555,950	304,674	5,131,998
Shop	200,231	12,633	16,336	196,528
Office	76,936	10,054	23,860	63,130
Engineers	6,350	266	2,054	4,562
Yard and storage	507,485	46,839	25,419	528,905
Infrastructure	20,744,342	1,891,838	-	22,636,180
Total accumulated depreciation and depletion	27,803,525	2,556,977	421,091	29,939,411
Total capital assets being depreciated - net	24,150,175	510,744	-	24,660,919
Governmental activities capital assets - net	\$ 27,074,487	\$ 681,873	\$ -	\$ 27,756,360

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

4. LONG-TERM DEBT

Long-term debt of the Road Commission consists of the following:

	<u>Balance January 1, 2004</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance December 31, 2004</u>	<u>Due Within One Year</u>
Installment lease					
purchase agreements	\$ 688,236	\$ -	\$ 233,534	\$ 454,702	\$ 174,460
Compensated absences	328,787	24,437	-	353,224	35,000
Totals	<u>\$ 1,017,023</u>	<u>\$ 24,437</u>	<u>\$ 233,534</u>	<u>\$ 807,926</u>	<u>\$ 209,460</u>

Lease Purchase Agreements

The Road Commission entered into four purchase agreements for certain equipment secured by the related equipment. Payment terms are as follows:

	<u>Annual Payments</u>	<u>Interest Rates</u>	<u>Final Payment</u>
4 trucks, 1 motor grader and			
asphalt plant refurbishment	\$102,714 - \$136,860	3.5%	5/07
Excavator	\$53,312	3.8% to 5.25%	12/06

Accrued Sick and Vacation

After the first year of employment, employees can earn one week of vacation. Thereafter employees earn one additional day of vacation per year, until a limit of four weeks is reached. Vacation leave may be accumulated up to a maximum of 1 week over the annual allotment, as of the employee's anniversary date.

Sick leave is earned at the rate of 12 days per year, a maximum of 62.5 days may be accumulated.

Excess sick leave earned above 62.5 days is then converted into personal days. Personal days can be accumulated up to a maximum of 12 days and are paid off on the employee's anniversary date.

Vacation, sick, and personal pay is payable in full when employment ceases.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The annual requirement to amortize the debt outstanding as of December 31, 2004, excluding sick and vacation leave payable, is as follows:

<u>Year Ended</u> <u>December 31,</u>	<u>Lease Purchases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 174,460	\$ 15,711	\$ 190,171
2006	180,992	9,180	190,172
2007	99,250	3,464	102,714
Totals	<u>\$ 454,702</u>	<u>\$ 28,355</u>	<u>\$ 483,057</u>

5. DEFINED BENEFIT PENSION PLAN

The Road Commission contributes to the Branch County Pension Plan, which is a single-employer public employees retirement system that covers all employees of the County, including Road Commission employees. The Plan is funded through the purchase of an Immediate Participation Guarantee (IPG) Group Annuity Contract with the John Hancock Mutual Life Insurance Company. Branch County's policy is to fund pension costs based on an actuarially determined rate of payroll. The portion of the Plan's actuarial accrued liability attributable solely to the Road Commission is not determinable. The Road Commission contributed \$98,102 as the employer share, and an additional \$85,027 on behalf of the employees under a prior year agreement.

A complete disclosure on the Branch County Pension Plan is presented within the County of Branch Comprehensive Annual Financial Report.

6. RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for property, fleet, umbrella, errors and omissions, and dishonesty bond. The Road Commission participates in the Michigan County Road Commission Self-Insurance Pool for workers' compensation insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

7. CONTINGENCIES

Under the terms of various Federal and State grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such grants could lead to reimbursement to the grantor agencies. However, Road Commission management does not believe such disallowances, if any, will be material to the financial position of the Road Commission.

The Road Commission has been named as a defendant in various litigation involving lawsuits pending and notices of intent to file suit.

Management and legal counsel of the Road Commission expect no material losses in excess of insurances should an unfavorable outcome prevail. No provision for any loss has been made in the accompanying financial statements.

BRANCH COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

8. SINGLE AUDIT

Governmental and certain other entities which expend \$500,000 or more of direct federal dollars are subject to a single audit in accordance with the OMB Circular A-133. The Road Commission expended \$366,913 of federal dollars which were passed through and administered by the Michigan Department of Transportation. The passed through monies will be included in the State of Michigan's single audit.

9. ECONOMIC DEPENDENCY

The Branch County Road Commission receives a substantial amount of its revenues from federal and state grants. A significant reduction in the level of this support, if this were to occur, could have an effect on the Branch County Road Commission's ability to continue its activities.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Road Commission provides postemployment health care benefits, in accordance with labor contracts and personnel policy. The Road Commission pays for health insurance from age 62 to 65. Currently, 7 retirees meet those eligibility requirements. Additionally, the Road Commission pays \$75 per month for association employees toward retirees health insurance premiums after age 65. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due on a pay as you go basis. During the year, expenditures of \$67,358 were recognized for postemployment health care.

11. RESTATEMENT

Beginning fund balance and net assets were restated (increased) by \$36,873 to correct for an error in a parts inventory account at December 31, 2003.

* * * * *

OPERATING FUND SCHEDULES

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF REVENUE AND OTHER FINANCING SOURCES - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE - FAVORABLE (UNFAVORABLE)
Permits	\$ 20,585	\$ 21,085	\$ 500
Federal sources:			
Bridge	543,173	81,058	(462,115)
Surface Transportation Program	-	285,855	285,855
Total Federal Sources	543,173	366,913	(176,260)
State sources:			
Motor Vehicle Highway Funds - Act 51:			
Engineering	10,000	10,000	-
Primary roads allocation	2,457,912	2,730,143	272,231
Local roads allocation	1,309,565	1,440,775	131,210
Primary urban roads	190,000	219,245	29,245
Local urban roads	21,000	23,880	2,880
Other	225,000	240,388	15,388
Total State Sources	4,213,477	4,664,431	450,954
Local sources:			
Township contributions	475,331	475,332	1
Total Local Sources	475,331	475,332	1
Charges for services:			
Maintenance contract	1,445,083	1,468,839	23,756
Salvage sales	2,274	2,274	-
Other	356,219	351,430	(4,789)
Total Charges for Services	1,803,576	1,822,543	18,967
Interest and rentals	7,500	8,362	862
County appropriation	25,000	25,000	-
Other:			
Other	459,277	-	(459,277)
Gain on equipment disposal	44,780	44,780	-
Total Other	504,057	44,780	(459,277)
TOTAL REVENUE	7,592,699	7,428,446	(164,253)
OTHER FINANCING SOURCES			
Installment purchase/lease proceeds	606,845	-	(606,845)
Total Other Financing Sources	606,845	-	(606,845)
TOTAL REVENUE AND OTHER FINANCING SOURCES	\$ 8,199,544	\$ 7,428,446	\$ (771,098)

BRANCH COUNTY ROAD COMMISSION

DETAIL SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL GENERAL OPERATING FUND

FOR THE YEAR ENDED DECEMBER 31, 2004

	AMENDED BUDGET	ACTUAL	VARIANCE
Heavy maintenance:			
Primary roads and structures	\$ 2,084,755	\$ 1,968,942	\$ (115,813)
Local roads and structures	757,462	832,416	74,954
Total Heavy Maintenance	<u>2,842,217</u>	<u>2,801,358</u>	<u>(40,859)</u>
Maintenance:			
Primary roads and structures, winter and traffic control	1,718,079	2,019,316	301,237
Local roads and structures, winter and traffic control	1,322,036	1,313,598	(8,438)
Total Maintenance	<u>3,040,115</u>	<u>3,332,914</u>	<u>292,799</u>
Trunkline:			
Maintenance	1,318,264	1,366,054	47,790
Nonmaintenance	102,785	102,785	-
Total Trunkline	<u>1,421,049</u>	<u>1,468,839</u>	<u>47,790</u>
Equipment:			
Direct	1,097,130	1,120,563	23,433
Indirect	331,729	337,829	6,100
Operating	213,436	217,364	3,928
Less: Equipment rental	(2,059,813)	(2,104,577)	(44,764)
Total Equipment, net	<u>(417,518)</u>	<u>(428,821)</u>	<u>(11,303)</u>
Administrative:			
Administration	486,791	323,251	(163,540)
Total Administrative	<u>486,791</u>	<u>323,251</u>	<u>(163,540)</u>
Capital outlay:			
Land improvements - building and equipment	422,316	422,316	-
Less - Depreciation	(606,845)	(665,138)	(58,293)
Total Capital Outlay, net	<u>(184,529)</u>	<u>(242,822)</u>	<u>(58,293)</u>
Debt service:			
Principal retirement	233,534	233,534	-
Interest and fiscal charges	24,285	24,285	-
Total Debt Service	<u>257,819</u>	<u>257,819</u>	<u>-</u>
Other:			
Other	399,920	2,285	(397,635)
TOTAL EXPENDITURES	<u>\$ 7,845,864</u>	<u>\$ 7,514,823</u>	<u>\$ (331,041)</u>

BRANCH COUNTY ROAD COMMISSION

SCHEDULE OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED DECEMBER 31, 2004

	DESIGNATED		UNDESIGNATED	
	PRIMARY	LOCAL	COUNTY	
	ROAD FUND	ROAD FUND	ROAD FUND	TOTAL
REVENUE				
Permits	\$ -	\$ -	\$ 21,085	\$ 21,085
Intergovernmental:				
Federal sources	270,345	64,952	31,616	366,913
State sources	3,181,070	1,483,361	-	4,664,431
Local sources	-	475,332	-	475,332
Charges for services	-	-	1,822,543	1,822,543
Interest and rentals	-	-	8,362	8,362
County appropriation	-	-	25,000	25,000
Other	-	-	44,780	44,780
TOTAL REVENUE	3,451,415	2,023,645	1,953,386	7,428,446
EXPENDITURES				
Heavy maintenance	1,968,942	832,416	-	2,801,358
Maintenance	2,019,316	1,313,598	-	3,332,914
Trunkline	-	-	1,468,839	1,468,839
Equipment - net	(190,011)	(138,681)	(100,129)	(428,821)
Administrative - net	210,165	113,086	-	323,251
Capital outlay - net	-	-	(242,822)	(242,822)
Debt principal	-	-	233,534	233,534
Interest and fiscal charges	-	-	24,285	24,285
Other	-	-	2,285	2,285
TOTAL EXPENDITURES	4,008,412	2,120,419	1,385,992	7,514,823
REVENUE OVER (UNDER) EXPENDITURES	(556,997)	(96,774)	567,394	(86,377)
OTHER FINANCING SOURCES (USES)				
Interfund adjustments	556,997	96,774	(653,771)	-
TOTAL OTHER FINANCING SOURCES (USES)	556,997	96,774	(653,771)	-
REVENUE AND OTHER FINANCING SOURCES (USES) UNDER EXPENDITURES	-	-	(86,377)	(86,377)
FUND BALANCE, Beginning of year, as restated	-	-	1,471,180	1,471,180
FUND BALANCE, End of year	\$ -	\$ -	\$ 1,384,803	\$ 1,384,803

INTERNAL CONTROL AND COMPLIANCE



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

March 22, 2005

Members of the Board of County
Road Commissioners
County of Branch, Michigan
Coldwater, Michigan

We have audited the financial statements of the of the governmental activities and the major fund of the Branch County Road Commission, a component unit of Branch County, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Branch County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Branch County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over financial reporting that we have reported to management of Branch County Road Commission in a separate letter dated March 22, 2005.

This report is intended solely for the information and use of management, the Board of County Road Commissioners, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



March 22, 2005

Board of County Road Commissioners
County of Branch
Coldwater, Michigan

We have audited the financial statements of **BRANCH COUNTY ROAD COMMISSION, a component unit of Branch County**, as of and for the year ended December 31, 2004, and have issued our report thereon dated March 22, 2005.

Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards

As stated in our engagement letter dated January 14, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Branch County Road Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Branch County Road Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Branch County Road Commission are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Branch County Road Commission during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

- Management's estimate of the useful lives of depreciable infrastructure and non-infrastructure capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Significant Audit Adjustments

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Branch County Road Commission's financial reporting process (that is, cause future financial statements to be materially misstated). We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on Branch County Road Commission.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Branch County Road Commission’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This letter is intended for the use of the Branch County Road Commission (a component unit of Branch County), management, and federal and state grantor agencies and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lohorn". The signature is written in a cursive, flowing style with a large initial 'L'.

BRANCH COUNTY ROAD COMMISSION

COMMENTS

For the Year Ended December 31, 2004

During our audit we became aware of an issue regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding this matter. This memorandum does not affect our report dated March 22, 2005 on the financial statements of Branch County Road Commission.

Financial Policies and Procedures Manual

We noted that financial procedures are performed on the basis of various internal memorandums, excerpts from Board resolutions, and other guidance, for which not all has been reduced to writing. Presently, there is no central source that incorporates all of these policies together in one document. This situation is similar to other smaller organizations.

We recommend that the Road Commission consider preparing and adopting a Financial Policies and Procedures Manual in order to enhance internal controls within the organization, and to provide for uniform procedures in implementing Board policies. Contents of the Manual could include such things as fund reserve policy, travel policies, fraud policy, procurement and purchasing policy, and many other items that can be tailored to the needs of the Road Commission.

* * * * *